



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

IN THE MATTER OF THE PETITION OF
ELIZABETHTOWN WATER COMPANY FOR APPROVAL)
OF AN INCREASE IN RATES FOR WATER SERVICE)

WATER

ORDER OF AMENDMENT

DOCKET NO. WR03070510

(SERVICE LIST ATTACHED)

BY THE BOARD:

On February 19, 2004, the Board of Public Utilities (Board) issued an Order (2004 Order) approving an increase in rates for the Elizabethtown Water Company (Company or E'town) in the overall amount of \$5,026,551 representing a 3.14% increase over current revenues.

In the 2004 Order, the Board recognized and stressed the high importance placed on the proper economic and environmental use of the State's water resources in light of the more frequent and severe droughts experienced in the State and the public benefit implicit in the proper economic and environmental use of the State's finite water resources.

The Board ordered that the Optional Industrial Wholesale (OIW) tariff rate¹ would expire on July 31, 2006, or the effective date of rates in the Company's next rate case proceeding, whichever was earlier. Before July 31, 2006, the Board allowed any of the parties² to petition the Board pursuant to a process specified in the 2004 Order:

Briefly, the OIW tariff process detailed in the 2004 Order directed the Company to file by January 31, 2005³ a revised OIW tariff for review:

"The Company will submit for the Parties review new tariff(s) designed to promote environmentally beneficial water resource management, water conservation, and implement water reuse. The new tariffs shall include the environmental impact of the use of water and load factor considerations." (2004 Order paragraph aa ii)

¹ The OIW tariff customers are: Rutgers University, Princeton University, Cogen Technologies, Linden Ventures, L.P.; Schering-Plough; Merck; Johanna Foods, Conoco Philips, and Bayway Refinery Company. There are no other customers covered by this tariff and no other customers are affected by the action in this proceeding.

² The parties in the proceeding that resulted in the 2004 Order were: the Company, the Division of the Ratepayer Advocate (RPA), the Board Staff, Cogen Technologies Linden Ventures, L.P., Bayway Refinery Company and Middlesex Water Company.

³ By letter dated January 28, 2005, the Company filed a letter with the Secretary of the Board requesting an extension of time to file the draft Conservation Study by May 1, 2005, and a final Conservation Study by October 1, 2005.

The Board also directed the Company, as part of its new OIW tariff proposals, to:

“provide incentives to customers to increase water reuse over current 2004 levels, such that water reuse is increased 20% above 2004 levels by 2006, and 40% above 2004 levels by 2010. If the Parties are able to reach agreement on the Company's tariff proposal by November 1, 2005, then the Company or Parties shall petition the Board for approval by January 31, 2006. If an agreement on the Company's tariff proposal is not reached by November 1, 2005, then a hearing will be conducted where any party to that proceeding will have the opportunity to present its position regarding the Company's tariff proposal or alternate proposals prior to a determination of the appropriate tariff structure for the Company. This proceeding will be part of a Phase II of the Company's rate petition that is the subject of the Order. The intent of the tariff proposals is to encourage environmentally beneficial use of the State's water reserves and not to substantially alter the revenues available to the Company, accordingly, any party may argue for the Board to consider rate relief as part of the Phase II proceeding.” (2004 Order paragraph aa ii)

STIPULATION

Initial discussions held among the OIW Parties⁴ to the Phase II proceeding began in April 2005, and continued through December 2005. Based upon these discussions, the OIW Parties reached a settlement and agree that:

- a. The OIW Parties request that the Board issue an Order adopting the language in paragraphs (i), (ii), (iii), (iv), (v) and (vi) below and thus modify paragraphs 24 (A & B) and aa (I & ii) of the Board's 2004 Order:

The OIW Customers will schedule a meeting with the Board Staff to take place in February 2006. The purpose of the meeting is to discuss the scope of water audits that will be conducted by each OIW customer. Each OIW customer shall contract with a third party with expertise in water conservation and reuse to conduct a water audit of its facilities taking service under the OIW tariff. In the event a customer has multiple facilities of a similar type and use, it may conduct the water audit on a representative sample of such facilities. The water audits shall include an assessment and recommendations, if any, of additional opportunities for water conservation and reuse taking into account economic costs, benefits and paybacks on a reasonable and commercially acceptable basis.

- ii. The purpose of the audit will be to make recommendations as to water conservation and reuse and, for the OIW customer(s) that is the subject of the audit, to make changes or modify behavior to implement water

⁴ The Parties to the Initial Discussion are as follows: the seven OIW customers, Rutgers University, Princeton University, Cogen Technologies, Linden Ventures, L.P., Schering-Plough, Merck, Johanna Foods, Conoco Philips, Bayway Refinery Company, E'town, RPA, and Board Staff. Middlesex Water Company submitted a letter advising that it does not oppose the settlement, and requested that it be advised of future proceedings.

conservation and reuse recommendations. Thus, the results of the audit and implementation of the recommendations stemming from the audit have the goal of increasing water conservation and/or water reuse options, such as, but not limited to, purchasing of treated wastewater and the development of a wastewater distribution system with the goal of increasing water re-use by 20% over 2004 levels by 2008 and /or increasing water conservation.

Each OIW customer shall submit its completed water audit to the Board Staff by July 15, 2006, on a confidential basis. The Board Staff shall review the audits and meet with the OIW customers as necessary: (1) for the purpose of furthering their understanding of the audits; (2) to engage in discussions with respect to the time frame for implementation of the recommendations of each water audit; and (3) to determine whether the Board Staff can cooperatively assist in implementation of recommended measures.

- iv. The OIW tariff shall remain in effect at its current rates, terms and conditions at least until August 1, 2007 or the issuance of a Board Order that changes rates related to Elizabethtown Water Company's next base rate petition. In the event the Board Staff finds that the OIW customers are not reasonably planning to implement the water conservation and/or water reuse, the Board Staff may recommend changes to the rates, terms and conditions of the OIW tariff or recommend its termination, to be effective after August 1, 2007 or the issuance of a Board Order that changes rates related to Elizabethtown Water Company's next base rate case petition consistent with the following paragraph: The OIW customers shall have an opportunity to contest any Board Staff recommendations or the recommendations of any party to change rates, terms and conditions of the OIW tariff, including an evidentiary hearing process, before the Board makes a determination with respect to such recommendations. Any rate change pursuant to this proceeding shall not substantially alter the revenues available to Elizabethtown Water Company.
- v. In the event Elizabethtown Water Company at any time files for an increase in base rates, the OIW Parties shall have the right to take any position with respect to the OIW tariff, notwithstanding the above.

DISCUSSION AND FINDINGS

The Board, having reviewed the settlement language of the OIW Parties, FINDS that the OIW Parties have voluntarily agreed to the settlement language and that the settlement language fully disposes of all issues in this proceeding, and is consistent with the law.

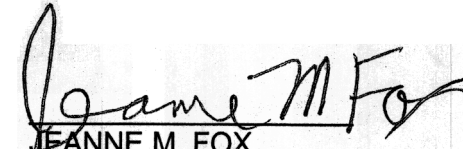
As to the terms embodied in the settlement language, the Board HEREBY ACCEPTS the agreement among the OIW Parties to the proceeding, as its own incorporating by reference the terms and conditions as if fully set forth at length herein, subject to the following:

- a. The OIW customers shall schedule a joint meeting with Board Staff to take place in February of 2006. The purpose of the meeting shall be to discuss the scope of water audits that shall be conducted by each OIW customer. Each OIW customer shall contract with a third party with expertise in water conservation and reuse to conduct a water audit of its facilities taking service under the OIW tariff. In the event an OIW customer has multiple facilities of a similar type and use, it may conduct the water audit on a representative sample of such facilities subject to Board Staff's approval. The water audits shall include assessments and recommendations, of additional opportunities for water conservation and reuse taking into account economic costs, benefits, and paybacks on a reasonable and commercially acceptable basis.
- b. The purpose of the audit shall be to make recommendations as to water conservation and reuse and, for the OIW customer that is the subject of the audit, to make changes or modify behavior to implement water conservation and reuse recommendations. Thus, the results of the audit and implementation of the recommendations stemming from the audit shall have the goal of increasing water conservation and/or water reuse options, such as, but not limited to, purchasing of treated wastewater and the development of a wastewater distribution system with the objective of increasing water reuse by 20% over 2004 levels by 2008 and/or increasing water conservation by 40% above 2004 levels by 2010.
- c. Each OIW customer shall submit its completed water audit to the Board Staff by July 15, 2006. The Board Staff shall review the audits and meet with the OIW customers, as necessary: (1) for the purpose of furthering their understanding of the audits; (2) to engage in discussions with respect to the time frame for implementation of the recommendations of each water audit; and (3) to determine whether the Board Staff can cooperatively assist in implementation of recommended measures. The Board is not, at this time, approving confidentiality of the audits. Once the audits are complete, the OIW customers may request confidential treatment for its audit by providing support as to why the audit is or should be considered confidential.
- d. The OIW tariff shall remain in effect at its current rates, terms and conditions until August 1, 2007, or the issuance of a Board Order that changes rates related to Elizabethtown Water Company. In the event the Board Staff finds that an OIW customer is not reasonably planning to implement water conservation and/or water reuse, the Board Staff may recommend changes to the rates, terms and conditions of the OIW tariff or recommend its termination, to be effective after August 1, 2007, or the issuance of a Board Order that changes rates related to Elizabethtown Water Company.
- e. The OIW customers shall have an opportunity to contest any Board Staff recommendations or the recommendations of any party to change rates, terms and conditions of the OIW tariff, including an evidentiary hearing process, before the Board makes a determination with respect to such recommendations. Any rate change pursuant to this proceeding shall not substantially alter the revenues available to the Company.

- f. In the event Elizabethtown Water Company at any time files for an increase in base rates, the OIW parties shall have the right to take any position with respect to the OIW tariff, notwithstanding the above.

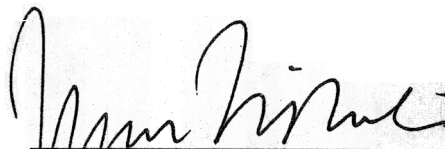
DATED: 2/2/06

BOARD OF PUBLIC UTILITIES
BY:



JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER

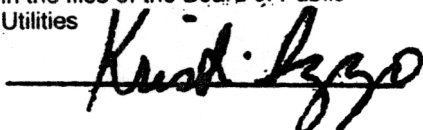

CONNIE O. HUGHES
COMMISSIONER


JOSEPH L. FIORDALISO
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



IN THE MATTER OF THE PETITION OF
ELIZABETHTOWN WATER COMPANY
FOR APPROVAL OF AN INCREASE IN RATES
FOR WATER SERVICE
BPU DOCKET NO. WR03070510
OAL DOCKET NO. PUC7281-03

(SERVICE LIST)

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IN THE MATTER OF THE PETITION OF
ELIZABETHTOWN WATER COMPANY
FOR APPROVAL OF AN INCREASE IN
RATES FOR SERVICE

OIW Settlement Language
NJBPU Docket No. WR03070510

The OIW Parties hereby agree to recommend to the Board that it issue an order adopting the language of this Stipulation that modifies paragraphs 24 (A&B) and aa (i & ii) of its February 19, 2004 Order (Docket Number WR03070510) reflecting the following agreement toward resolution of this matter:

The OIW Customers will schedule a meeting with the Board Staff to take place in February of 2006. The purpose of the meeting will be to discuss the scope of water audits that will be conducted by each OIW customer. Each OIW customer shall contract with a third party, with expertise in water conservation and reuse, to conduct a water audit of its facilities taking service under the OIW tariff. In the event a customer has multiple facilities of a similar type and use, it may conduct the water audit on a representative sample of such facilities. The water audits shall include an assessment and recommendations, if any, of additional opportunities for water conservation and reuse taking into account economic costs, benefits and paybacks on a reasonable and commercially acceptable basis.

The purpose of the audit will be to make recommendations as to water conservation and re-use and for the OIW customer that is the subject of the audit to make changes or modify behavior to implement water conservation and re-use recommendations. Thus, the results of the audit and implementation of the recommendations stemming from the audit have the goal of increasing water conservation and /or water re-use options, such as, but not limited to, purchasing of treated wastewater and the development of a wastewater distribution system with the goal of increasing water re-use by 20% by 2008 over 2004 levels and/or increasing water conservation.

Each OIW customer shall submit its completed water audit to the Board Staff by July 15, 2006, on a confidential basis. The Board Staff shall review the audits and meet with the OIW customers, as necessary, for the purpose of furthering their understanding of the audits; to engage in discussions with respect to the time frame for implementation of the recommendations of each water audit; and to determine whether the Board Staff can cooperatively assist in implementation of recommended measures.

The OIW tariff shall remain in effect at its current rates, terms and conditions at least until August 1, 2007 or the issuance of a Board Order that changes rates related to Elizabethtown Water Company's next base rate case petition. In the

event the Board Staff finds that the OIW customers are not reasonably planning to implement water conservation and/or water re-use recommendations from the third-party auditor, the Board Staff may recommend changes to the rates, terms and conditions of the OIW tariff or recommend its termination to be effective after August 1, 2007, or the issuance of a Board Order that changes rates related to Elizabethtown Water Company's next base rate case petition, consistent with the following paragraph. The OIW customers shall have an opportunity to contest any Board Staff recommendations or the recommendations of any party to change rates, terms and conditions of the OIW tariff, including an evidentiary hearing process, before the Board makes a determination with respect to such recommendations. Any rate change pursuant to this proceeding shall not substantially alter the revenues available to the Elizabethtown Water Company.

In the event Elizabethtown Water Company at any time files for an increase in base rates, the OIW Parties shall have the right to take any position in such base rate case with respect to the OIW tariff, notwithstanding the above.

DATED: January 18, 2006

NJ BPU Staff

OIW Customer Coalition



James H. Laskey, Esq.
Norris, McLaughlin
& Marcus
On behalf of:

Division of Ratepayer Advocate

Johanna Foods
Rutgers University
Princeton University
Conoco Phillips
Goldman Sachs *Cohen*
Schering Plough
Merck & Co., Inc. (a)

Elizabethtown Water Company

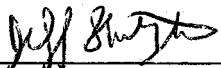
(a) At this time, Merck & Co., Inc., while an OIW Customer, has not participated as part of the OIW Coalition. Merck has accepted the terms of this Settlement via separate confirmation.

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DATED: January - -, 2006

NJ BPU Staff
NANCY KAPLAN, ACTING ATTORNEY GENERAL
OF NEW JERSEY


BY: JEFF SLUTZKY, DEPUTY ATTORNEY GENERAL

Division of Ratepayer Advocate

Elizabethtown Water Company

OIW Customer Coalition

James H. Laskey, Esq.
Norris, McLaughlin
& Marcus
On behalf of:

Johanna Foods
Rutgers University
Princeton University
Conoco Phillips
Goldman Sachs
Schering Plough
Merck & Co., Inc. (a)

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DATED: January - -, 2006

NJ BPU Staff

OIW Customer Coalition

Division of Ratepayer Advocate


Susan E. McClure, ADRA

Elizabethtown Water Company

James H. Laskey, Esq.
Norris, McLaughlin
& Marcus
On behalf of:

Johanna Foods
Rutgers University
Princeton University
Conoco Phillips
Goldman Sachs
Schering Plough
Merck & Co., Inc. (a)

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DATED: January - -, 2006

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Conoco Phillips
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Schering Plough
Merck & Co., Inc. (a)

Elizabethtown Water Company


JAMES F. MCCABE
VP FINANCE

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MIDDLESEX
WATER COMPANY

RECEIVED
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NASDAQ Stock Market Symbol: MSEX
www.middlesexwater.com

January 13, 2006
Via Fax (973-877-1167)
& Regular Mail

Dante Mugrace, Chief
Bureau of Rates
Division of Water
New Jersey Board of Public Utilities
2 Gateway Center
Newark, NJ 07102

**Re: Elizabethtown Water Company –
OIW Settlement Draft -12-28-05**

Dear Dante:

This will confirm our telephone conversation today wherein I advised you that although we have no objection to the Settlement Draft referred to above, we do want to be part of any future proceedings or notices involving this matter, particularly as such future proceedings may have any impact on Middlesex Water Company and/or its rates.

If you have any questions or need any additional information from us, please do hesitate to contact me.

Very truly yours,

Kenneth J. Quinn
Vice President,
General Counsel,
Secretary and Treasurer

KJQ:dml

Cc: Dennis W. Doll
A. Bruce O'Connor